

Section A. Audit Program Checklist

Please copy this section for use of the Audit Committee. Instructions for the Audit Program may be found in Section D.

1. *General Information:*

Congregation	
Street Address	
Mailing Address	
City, State, Zip	
Rector/Vicar/ Priest in Charge	
Senior Warden	
Junior Warden	
Treasurer	
Other	
Financial Records Maintained by	
Location of Financial Records	
Location of Audit	
Commencing	
Audit Committee	

2. *Pre-Audit Meeting:* Date _____

Attended by:

Name	Title

- a. Objectives and scope of audit discussed? Yes No
- b. Time Schedule arranged? Yes No
- c. Reimbursement for out of pocket expenses discussed? Yes No
- d. Availability of workspace established? Yes No

- e. Availability of required records established? Yes No
- f. Availability of *Manual of Business Methods in Church Affairs determined?* Yes No
- g. Assistance of staff requirements established? Yes No
- h. Engagement letter setting forth agreements between Vestry and Audit Committee discussed? Yes No

3. *Pre-Audit Documents Required for Review:*

- a. Original signed Vestry minutes Yes No
- b. Minutes of any group authorized to disburse monies Yes No
- c. Annual financial report to parish Yes No
- d. Treasurer's interim reports Yes No
- e. Annual Parochial Report Yes No
- f. Names of those authorized for check signing, fund withdrawal or transfer, and disbursing approval Yes No
- g. List of securities held Yes No
- h. Arrangements made for receipt of unopened bank statement(s) or mailing of request for confirmation of bank balance(s), loan balance(s) and investments Yes No
- i. Copy of previous year's audit and internal control letter Yes No
- j. Organizational Chart Yes No
- k. Chart of Accounts Yes No
- l. Budget Yes No
- m. General ledger Yes No
- n. Cash receipts journal Yes No
- o. Cash disbursements journal Yes No
- p. Bank statements for audited year, plus last statement for previous year and first for current year Yes No
- q. Paid checks and deposit slips Yes No
- r. Payroll records with Forms I-9, W-2, W-3, W-4, and State and Federal withholding records Yes No
- s. Savings account passbooks Yes No
- t. Other investment records Yes No

4. *Cash*

- a. Is the petty cash fund imprest? Yes No
- b. Is the checking account(s) reconciled to the accounting records and checkbook, using unopened year-end bank statement(s) or an independently received bank confirmation? Yes No

- c. Have paid checks been examined for authorized signatures? Yes No
- d. Have paid checks been examined for endorsements? Yes No
- e. Have the checks been compared to the disbursements journal for payees and amounts? Yes No
- f. Have all voided checks been accounted for? Yes No
- g. Has the subsequent January statement been reviewed? Yes No
- h. Are disbursements supported by vouchers approved by authorized party other than check signer? Yes No
- i. Are two signatures required on checks for \$500 or more? Yes No
- j. Is the bank notified immediately of all changes to authorized check signers? Yes No
- k. Are cash journal totals tested for accuracy? Yes No
- l. Are receipt records compared with bank deposits for full year? Yes No
- m. Are all transfers between accounts traced? Yes No
- n. Does an authorized party other than a check-signer approve journal entries, and are they adequately documented? Yes No
- o. Are all checking accounts (including Discretionary funds and Episcopal Church Women) in the name of the congregation using its Federal Employer Identification Number? Yes No

5. *Pledges and Other Gifts:*

- a. Do the records of total receipts per individual pledge agree with the amounts recorded and reported in the cash receipts journal? Yes No
- b. Have the postings and arithmetic on individual pledge records been tested? Yes No
- c. Number of individual pledge records sampled: _____
- d. Is there budgeting of contributions that can be reasonably estimated? Yes No
- e. Are contribution budgets periodically compared to actual, and are significant differences investigated? Yes No
- f. Are records kept and periodically reviewed of gifts, such as bequests, which are contingent on future events? Yes No
- g. Are future bequest and gift files, such as proceeds from life insurance policies or sale of property willed to a congregation, maintained on a current basis? Yes No
- h. Are files kept on life income, endowment, and annuity gifts, including information on the nature of the principal, investment of the principal, or use of the principal income, as well as correspondence with donors or beneficiaries, and copies of pertinent documents? Yes No

- i. Are individuals designated to be responsible for assuring compliance with the terms and conditions of all grants, restricted contributions, endowments, etc. received? Yes No

6. *Securities:*

- a. Is the securities list verified against subsidiary ledger accounts, validating serial numbers against purchase records of gifts? Yes No
- b. Is the name verified in which securities are registered? Yes No
- c. In the case of coupon bonds, are unmatured coupons intact? Yes No
- d. Is the market value of securities established at the date of the examination? Yes No
- e. Are securities examined or confirmed if held by depository or transfer agent? Yes No
- f. Are brokers reports examined for securities bought or sold through broker? Yes No
- g. Were security purchases or sales authorized by appropriate Vestry action and recorded in the minutes? Yes No
- h. Have cash receipts records of dividends and interest been compared with record of securities held? Yes No

7. *Trust and Endowment funds:*

- a. Has a list of trust and endowment funds been obtained, including their terms and locations of the investments? Yes No
- b. Has there been an examination of the deed of trust or agency agreement for each trust and endowment fund? Yes No
- c. Have the agency accounting records been checked to determine whether or not the terms of the trust or endowment funds are being properly followed? Yes No

8. *Property and Equipment:*

- a. Is there a list of fixed assets, showing date of purchase and cost? Yes No
- b. Is an inventory identification procedure in effect? Yes No
- c. Using preceding information, has a physical examination of assets been made, to extent possible? Yes No
- d. Have any deeds and titles required been examined as evidence of ownership? Yes No
- e. Are land and buildings carried on financial statements? Yes No
- f. Are any liens outstanding against property and equipment? Yes No

9. *Liabilities: Payroll Taxes*

- a. Have total wages been reconciled with quarterly Federal Form 941, Form W-2, and Form W-3 and other required forms? Yes No
- b. Have total withholding taxes been reconciled with Form 941 and other required forms? Yes No
- c. Has it been determined that all Federal, State and local withholding taxes were remitted on a timely basis to avoid hidden penalties? Yes No
- d. Is a current, signed Form W-4, I-9 or other required forms on hand for each employee? Yes No
- e. Has a housing resolution been included in the Vestry minutes for each cleric employed by the congregation? Yes No

10. *Other Indebtedness:*

- a. Have appropriate church officials properly authorized all indebtedness? Yes No
- b. Have unpaid balances per church records been reconciled with balances as reported by creditor? Yes No
- c. Is a detailed schedule of all loans prepared, including name of creditor, date of origin, original amount of debt, interest rate payment schedule, monthly payment, unpaid balance, loan purpose, and authorizing body? Yes No

11. *Payables:*

- a. Have payments made subsequent to the end of the year been investigated for items which should have been included as an expense and account payable in the audit year? Yes No
- b. Have inquiries been made as to any unpaid items from the audit year that should have been included as a payable? Yes No
- c. Have inquiries been made as to any paid items from the audit year that should not have been expensed but recorded as a prepaid item? Yes No

12. *Other:*

- a. Has insurance coverage been reviewed, and has a copy of policies been obtained and a schedule prepared detailing name of carrier, description of coverage, period covered, premium amount, and date of premium payment? Yes No
- b. Has there been inquiry as to whether there are any contingencies or commitments facing the church, e.g., legal action with prospects of potential loss? Yes No

- c. Is there a policy covering the procedure for write-offs or receivables or loans, approval required, provision for reserves? Yes No
- d. Is there a process in place for ongoing review of the budget? Yes No

Section B. Sample Audit Committee Certificate

Date _____

To the Rector, Wardens and Vestry of (Church Name; Church Address; City and Zip)
Subject: (Audit Year) Audit of (Church Name)

We have inspected the statement of financial position of (Name of Church) as of December 31, (Audit Year), and the related statement of activities and cash flows for the year then ended. Our inspection was made in accordance with the audit guidelines of the *Manual of Business Methods in Church Affairs*, and the financial statements are prepared on a (cash, modified accrual, or accrual – *accrual being the preferred method*) basis in accordance with principles adopted by the Episcopal Church and approved by its General Convention except as noted. (Note exceptions here, if any: Was depreciation recognized? Were donated services recorded?)

We have taken steps to see that the accompanying financial statements present fairly, in all material respects, except as noted above, the financial position of the Congregation at December 31, (Audit Year); and that the changes in its net assets and its cash flows for the year then ended are in accordance with the principles authorized by General Convention of the Episcopal Church on a basis consistent with that of the preceding year.

Our inspection and certificate are not meant to be construed as an audit and opinion rendered by a Certified Public Accountant.

Sincerely, Members of the Audit Committee (List names and phone numbers of Audit Committee Members and have each member sign the Audit Committee Certificate)

Section C. Sample Audit Committee Findings on Policies and Procedures

Date _____

To the Rector, Wardens and Vestry of (Church Name)
Subject: (Audit Year) Audit of (Church Name)

During the course of the above inspection, the following items pertaining to internal control and other operation matters were noted. The first group includes areas of management control where prior year auditor recommendations have been implemented; the second group includes comments and recommendations of current year auditors.

Areas where prior year auditors recommendations have been implemented:

Comments and recommendations of current year auditors:

Members of the Audit Committee (List names and addresses of Audit Committee Members and have each member sign the Audit Committee Certificate)

Section B. Internal Control Questionnaire

The following Internal Control Questionnaire is intended to provide guidance for setting up an accounting system and a checklist for periodic review and evaluation of an existing system. The questionnaire is designed also to assist a congregation's internal audit committee. The format is a series of questions, most of which refer to some recommended internal control. The normative answer to a question will be positive. A negative response suggests an area of the system that could be strengthened.

Developing a narrative description is suggested, to provide documentation of the current review. This narrative should be retained for reference in future evaluations.

General: The following items are intended to provide general information to aid understanding of the overall accounting and internal control system.

1. Are prior internal control questionnaires and auditors' recommendations available? Yes No
2. Have recommendations of prior reports on internal controls been implemented? Yes No
3. Is a complete and current chart of accounts, listing all accounts and their respective account numbers, available? Yes No
4. Is there an accounting policy and procedure manual? Yes No
5. Is it up to date? Yes No
6. Is a current edition of this manual available? Yes No
7. Is the accounting system using a double-entry bookkeeping method? Yes No
8. Have the findings of external auditors been reported to the Vestry? Yes No

Budget: The development and use of a budget is a critical management tool that will aid in the stewardship and administration of church resources and program.

1. Is the budget approved by the Vestry? Yes No
2. Are all changes to the budget authorized by the Vestry and Yes No

recorded in the minutes of the meetings?

3. Is there a periodic review of the budget by the Vestry? Yes No

Reporting: The best accounting system is of little value unless it communicates the information it contains to those responsible. Although there may be variations, certain minimum standards exist to assure adequate communication of the financial information.

1. Is a Treasurer's report submitted to the Vestry or accounting committee each month? Yes No
2. Is the Treasurer's report presented in sufficient detail to inform the reader about the nature of the various income and disbursement items? Yes No
3. Does the report present the current actual financial data compared with the approved budget? Yes No
4. Is there periodic reporting, at least quarterly, of all other funds And activities, including designated or restricted funds? Yes No

Cash Receipts: Clearly stated policies and procedures regarding the handling of cash and other receipts help not only to protect from loss, but assure that all receipts are properly recorded in the records.

1. Are there safeguards to protect the collections from theft or misplacement from the time of receipt until the time the funds are counted and deposited? Yes No
2. Are the collection receipts counted and deposited so that the deposit equals the entire amount of receipts on a timely basis, i.e., at least weekly? Yes No
3. Are there at least two unrelated persons responsible for counting and depositing the collections? Yes No
4. Are the persons responsible for counting receipts rotated on a periodic basis? Yes No
5. Do the counters have a standardized form for recording the deposit information? Yes No
6. Are the counters' sheets retained and reconciled with actual deposits, and are all discrepancies investigated? Yes No
7. Is there a control prohibiting the cashing of checks from the currency received? Yes No
8. Are all of the pledge envelopes or other memoranda retained and reconciled to the recorded amounts? Yes No
9. Are all other cash receipts recorded and deposited on a timely basis? Yes No
10. Are all checks received restrictively endorsed "for deposit only" immediately upon receipt? Yes No
11. Are all cash receipts deposited into the general operating checking account? Yes No
12. Are there procedures that will highlight, or bring to someone's attention, the fact that all receipts or income have not been received or recorded? Yes No

13. Are periodic statements provided to donors of record (i.e. at least quarterly)? Yes No
14. Do acknowledgments of contributions in excess of \$250 include a receipt from the recipient organization which states that it is "the contemporaneous acknowledgment required by the Internal Revenue Code, and states that, in accordance with Section 170(F)(8)(B), any goods or services provided consist solely of intangible religious benefits"? Yes No
15. Are all discrepancies investigated? Yes No

Cash Disbursements: The following procedures will assist in assuring that all payments are properly approved, recorded, and supported by appropriate documentation.

1. Are all disbursements made by check, except for small expenditures made from petty cash? Yes No
2. Are all checks pre-numbered and used in sequence? Yes No
3. Is there a clearly defined approval process for all disbursements? Yes No
4. Are all voided checks properly cancelled and retained? Yes No
5. Are all checks payable to specified payees and not to cash or to bearer? Yes No
6. Are all disbursements supported by original documentation? Yes No
7. Is the original vendor's invoice or other documentation cancelled at the time of signature to prevent duplicate payment? Yes No
8. Check signing:
- a. Is signing blank checks prohibited? Yes No
 - b. Is using a signature stamp or pre-printed signatures prohibited? Yes No
 - c. Does all supporting documentation accompany checks presented for signature? Yes No
 - d. Are all account signers required for any check? Yes No
 - e. Is more than one signature required for any check? Yes No
 - f. If not, do checks for more than \$500 required more than one signature? Yes No
 - g. If signature imprint machines are not used, are the keys kept under lock and key except when in use? Yes No
9. Are all disbursements requiring special approval of funding sources or the Vestry properly documented in the Vestry or Finance Committee members? Yes No
10. Are there adequate controls and segregation of duties regarding Electronic Funds Transfers? Yes No

Journal Entries: Journal Entries offer a special opportunity to make adjustments to accounting records. The general journal is an equally important book of original entry as the cash receipts and cash disbursements journals.

1. Is there an appropriate explanation accompanying each journal entry? Yes No
2. Are all journal entries approved by a knowledgeable authority other

- than the person initiating the entry? Yes No
3. Is adequate documentation maintained to support each journal entry? Yes No

Bank Account Reconciliation: The monthly reconciliation of all bank accounts is a primary tool for assuring the proper recording and accounting for all cash account activity.

1. Are all bank accounts reconciled within 10 days of receipt of bank statement? Yes No
2. Do two different people perform the tasks of opening and reconciling the bank statement? Yes No
3. Does someone complete the bank account reconciliations other than the person who participates in the receipt or disbursement of cash? Yes No
4. Do the reconciliation procedures provide for:
 - a. Comparison between the bank statement and the cash receipts journal of dates and amounts of deposits? Yes No
 - b. Investigation of bank transfers to determine that both sides of the transactions have been recorded? Yes No
 - c. Investigation of all bank debit and credit memos? Yes No
 - d. Review of all checks outstanding more than 90 days? Yes No
 - e. Are checks more than 180 days outstanding voided during the year-end reconciliation? Yes No
 - f. Is the bank immediately notified of all changes of authorized check-signers? Yes No
5. Are all journal entries for bank charges and bank account interest recorded routinely? Yes No
6. Are all bank accounts included on financial reports to the Vestry? Yes No

Petty Cash: The following controls are intended to provide a timely recording of cash expenditures in the accounting system.

1. Is the responsibility for the petty cash fund assigned to one person? Yes No
2. Are all petty cash funds maintained on an imprest basis, i.e., the total amount of vouchers paid or disbursed, plus cash, always equal the amount of the fund? Yes No
3. Is adequate review made of documentation before the fund is reimbursed? Yes No
4. Is the petty cash fund reimbursed at least monthly? Yes No
5. Are check cashing and making loans to employees prohibited? Yes No
6. Is the actual petty cash protected from theft or misplacement? Yes No

Investments: Procedures for proper recording and control of all investment instruments will help to assure that all assets and related income are accounted for and properly reported.

1. Are all investment instruments held in the name of the church only? Yes No
2. Is the authorization for the sale and/or purchase of investments provided for by the Vestry or authorized Investment Committee? Yes No

3. Are all investment instruments adequately protected from fire, theft, or misplacement, preferably in custody by a bank, broker or other financial intermediary? Yes No
4. Is the income/dividends/interest recorded? Yes No
5. Are all investment accounts included in financial reports to the Vestry? Yes No

Property and Equipment: Certain procedures involving the physical assets of the church will aid in detecting, identifying and preventing losses.

1. Is formal approval of the Vestry required for all property and equipment additions and dispositions? Yes No
2. Is a detailed inventory of all property, furniture, fixtures, and equipment maintained showing:
 - a. Date acquired? Yes No
 - b. Detailed description? Yes No
 - c. Cost or fair market value at time of donation? Yes No
 - d. Any funding source restrictions? Yes No
3. Is a periodic review conducted to compare the actual property, furniture, and fixtures, and equipment with the recorded inventory listing? Yes No
4. Is there a safe deposit box?
 - a. Is there an inventory of its contents? Yes No
 - b. Who is authorized to enter it? _____
5. Are permanent records such as articles of incorporation, if applicable, by-laws and real estate deeds kept in a safe place? Yes No
6. Are they up to date? Yes No

Insurance: Insurance should be maintained that is adequate to protect against all reasonable risks of loss.

1. Is there a periodic review conducted to ensure the adequacy of the insurance coverage for:
 - a. Property? Yes No
 - b. Liability? Yes No
 - c. Fidelity Bond? Yes No
 - d. Sexual Misconduct? Yes No
 - e. Directors and Officers Liability? Yes No
 - f. Workers' Compensation? Yes No
2. Is there a policy related to sexual misconduct? Yes No
3. Is there a periodic review conducted to ensure that adequate controls are in place to prevent loss? Yes No

Liabilities and Other Debt: All liabilities and other debt must be clearly reported, and all provisions or restrictions complied with.

1. Is all borrowing or indebtedness authorized by the Vestry and the

- appropriate diocesan board or committee? Yes No
2. Are all loan agreements and/or lease agreements in writing and properly safeguarded? Yes No
3. Are there periodic reviews conducted to determine compliance with any debt/lease provisions? Yes No
4. Are all liabilities noted on Financial Reports to Vestry? Yes No

Restricted Gifts and Income: Gifts restricted by donors are not handled in the same manner as other contributions. Procedures are necessary to assure that these gifts are recorded properly and all restrictions are observed.

1. Are records maintained of all bequests, memorials, endowments, or any other restricted gifts to include:
- a. Date, amount and donor gift? Yes No
- b. Any restrictions or limitations? Yes No
2. Does the Vestry vote to accept all restricted gifts and grants, promising to abide by the restrictions? Yes No
3. Are written acknowledgements issued for whom they are required? Yes No

Payroll: The application of policies and procedures involving the employment of individuals assures compliance with payroll tax reporting to the various governmental entities. It is strongly recommended that payroll be processed by a professional service. Questions 3, 4, 5 & 8 are necessary only if payroll is still processed in-house, whether manually or with an in-house computer software program.

1. Are personnel files maintained to include:
- a. Employment application and/or letter of employment? Yes No
- b. Authorizations of pay rates and effective dates? Yes No
- c. Internal Revenue Service Form W4? Yes No
- d. Department of Justice Form I-9? Yes No
- e. State Withholding Forms? Yes No
- f. New hire reporting? Yes No
2. Is there a written record of hours worked, approved by a Supervisor when applicable? Yes No
3. Are there adequate records to:
- a. Show computation of gross pay? Yes No
- b. Account for all deductions from gross pay? Yes No
- c. Support payroll tax returns and Forms W-2? Yes No
4. Are payroll tax returns filed on a timely basis? Yes No
5. Are Forms 1099 being provided for all individuals who are not employees and for all unincorporated entities paid \$600 or more annually? Yes No
6. Are Form W-2 wages reconciled to the general ledger accounts, and all four quarterly payroll tax returns? Yes No
7. Are clergy housing allowances recorded in the minutes of the Vestry no later than the first meeting of the year? Yes No

Computer Systems: The use of computers creates the need for additional procedures to safeguard the system and data.

1. Are current or duplicate copies of the operating system and programs maintained off premises? Yes No
2. Is access to the computer and computer programs limited to authorized persons? Yes No
3. Is there adequate documentation, including user manuals, available on-site for all computer programs? Yes No
4. Is there a plan for recovery of data and continuation of operations in the event of a disaster? Yes No